

**City of Watervliet  
Berrien County, Michigan**

**11-0080**

**Financial Report**

**June 30, 2004**

**RENDEL ELIE**

**— & —**

**ASSOCIATES PLC**

**CERTIFIED PUBLIC ACCOUNTANTS**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

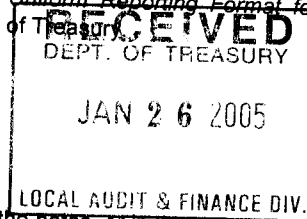
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Watervliet</b>		County <b>Berrien</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>12/28/04</b>	Date Accountant Report Submitted to State: <b>1/25/05</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Rendel Elie &amp; Associates PLC, CPA's</b>			
Street Address <b>1010 Main Street</b>		City <b>St. Joseph</b>	State <b>MI</b>
Accountant Signature <i>Rendel Elie, CPA</i>		ZIP <b>49085</b>	Date <b>1/25/05</b>

# City of Watervliet

## Table of Contents

	<u>Page</u>
<b>Independent Auditors' Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	11
Statement of Activities	12-13
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet to Net Assets	15
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances to the Statement Of Activities – Governmental Funds	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
<b>Notes to the Financial Statements</b>	21-32
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	33-34
Budgetary Comparison Schedule – Major Street Fund	35
Budgetary Comparison Schedule – Local Street Fund	36
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances – Nonmajor Governmental Funds	38
Statement of Changes in Assets and Liabilities – Tax Collection Fund	39

RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Honorable Mayor and City Commission  
City of Watervliet  
Watervliet, Michigan

We have audited the accompanying basic financial statements of the City of Watervliet as of June 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Watervliet as of June 30, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Watervliet. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report (continued)

As described in the notes to the financial statements, the City implemented Governmental Accounting Standards Board Statement Number 34 during the current year.

The management's discussion and analysis and budgetary comparison information included in the financial section of the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City of Watervliet. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watervliet's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rendel Elie & Associates*  
RENDEL ELIE & ASSOCIATES, PLC  
CERTIFIED PUBLIC ACCOUNTANTS

December 28, 2004

1010 Main Street  
St. Joseph, MI 49085  
(269) 983-1069  
(269) 983-3606 fax  
Page 2

**Management's Discussion and Analysis**  
**June 30, 2004**



*City of Watervliet*

P. O. Box 86 WATERVLIET, MICHIGAN 49098

Phone (269) 463-6769

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**Using this Report**

Within this section of the City of Watervliet (City) annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government. Comparative financial information will be included in future years.

**Financial Highlights (dollars are in thousands)**

- The City's assets exceeded its liabilities by \$2,762,231 for the fiscal year reported.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$1,714,238 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$3,744 are restricted by constraints imposed from outside the City by grantors.
  - (3) Unrestricted net assets of \$1,044,249 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$879,855 for this year. Unreserved fund balance was \$876,111 for fiscal year 2004.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$522,109 or 64.5% of total General Fund expenditures including transfers and 54.8 % of total General Fund revenues including transfers.
- Total liabilities of the city decreased by \$23,030 to \$522,166 at the end of the fiscal year.

**Overview of the Financial Statements**

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

## Management's Discussion and Analysis

### June 30, 2004

#### Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City capital assets in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and culture and recreation. Business-type activities include water and sewer utilities.

The City's financial reporting entity includes the funds of the City (primary government). The City does not have any component units, and therefore, component units are not included in these financial statements.

#### Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

**Management's Discussion and Analysis**  
**June 30, 2004**

**Fund Financial Statements (continued)**

Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund and major special revenue fund. Budgetary comparison schedules for other special revenue funds can be found in a later section of this report. These statements and schedules demonstrate compliance with the City's adopted and final revised budget.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization, such as the water and sewer utilities.

**Notes to the financial statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.



**Management's Discussion and Analysis**  
**June 30, 2004**

**Notes to the financial statements (continued)**

*Other information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the detail by fund for receivables, payables, and transfers within the reporting entity. Supplementary information follows the notes to the financial statements.

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

**Financial Analysis of the City as a Whole (dollars are in thousands)**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole. Comparative information is not included in report, but will be included in the future.

The following table provides a summary of the City's net assets at June 30<sup>th</sup>:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Current and other assets	\$1,007,586	\$ 247,955	\$1,255,541
Capital assets, net	708,763	1,227,535	1,936,298
Investment in brownfield	<u>92,558</u>	<u>--</u>	<u>92,558</u>
Total assets	1,808,907	1,475,490	3,284,397
Long-term liabilities	127,606	150,000	277,606
Other liabilities	<u>151,664</u>	<u>92,896</u>	<u>244,560</u>
Total liabilities	279,270	242,896	522,166
Net assets:			
Invested in capital assets, Net of related debt	661,703	1,052,535	1,714,238
Restricted	3,744		3,744
Unrestricted	<u>864,190</u>	<u>180,059</u>	<u>1,044,249</u>
Total net assets	<u>\$1,529,637</u>	<u>\$1,232,594</u>	<u>\$2,762,231</u>

**Management's Discussion and Analysis**  
**June 30, 2004**

**Financial Analysis of the City as a Whole – (continued)**

The following table provides a summary of the changes in the net assets for the year ended June 30<sup>th</sup>:

**Summary of Changes in Net Assets**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Revenues:			
Program revenues			
Charge for services	\$ 38,866	\$ 534,376	\$ 573,242
Operating grants and contributions	416,385		416,385
Capital grants and contributions	47,880		47,880
General revenues			
Property taxes	522,714		522,714
Unrestricted investment income	11,381	1,351	12,732
Other	90,256	--	90,256
Total revenues	<u>1,127,482</u>	<u>535,727</u>	<u>1,663,209</u>
Expenses:			
General government	204,843		204,843
Public safety	338,750		338,750
Public services	252,272		252,272
Health and welfare	16,339		16,339
Recreation and cultural	42,362		42,362
Streets	98,984		98,984
Downtown development	20,103		20,103
Housing improvement	7,200		7,200
Water & sewer utilities	--	504,711	504,711
Total expenses	<u>980,853</u>	<u>504,711</u>	<u>1,485,564</u>
Increase in net assets	146,629	31,016	177,645
Beginning net assets	768,935	1,201,578	1,970,513
Ending net assets	<u>\$ 915,564</u>	<u>\$ 1,232,594</u>	<u>\$ 2,148,158</u>

The City reported positive balances in net assets for both governmental and business-type activities. The City's overall financial position improved during fiscal year 2004. The City's net assets at fiscal year-end are \$ 2,148,158.

Other less positive factors also affected the City's governmental activities. Market performance continues to be a concern to the City, and the safeguarding and maintenance of the City's investments is a priority. Investment income is also a component of the resources funding the City's continuing operations and service levels. Investment performance continued to decline during the 2004 fiscal year as market pressures continued. The national and state wide economic downturn slowed shared revenues. The City's governmental activities particularly rely heavily on state shared revenues.

**Management's Discussion and Analysis**  
**June 30, 2004**

**Financial Analysis of the City as a Whole – (continued)**

Business-type activities realized continuing benefits from a new rate program for sewer services. A new rate schedule was implemented during the fiscal year for the City's sewer services.

**Financial Analysis of the City's Funds**

*Governmental funds*

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$927,452. Of this year-end total, approximately \$923,708 is unreserved indicating availability for continuing City service requirements. Reserved fund balances include Housing Improvement Funds of \$3,744.

The total ending fund balances of governmental funds show an increase of \$158,517. This is primarily the result of the events and programs described within the analysis of the City's governmental activities.

*Major Governmental Funds*

The General Fund is the City's primary operating fund. The fund balance of the General Fund increased by \$146,078 despite revenue shrinkage resulting from the decline in the state economy and reduced state revenue sharing. Key factors contributing to this change include the receipt of grant funds for the Hays Park Project, which began in the previous fiscal year, continued cost control efforts, including reducing overtime in operating costs for police, and the financing of public works equipment.

*Proprietary funds*

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

*Major Proprietary Funds*

The water and sewer funds share the financing and operations of the City's utilities reported within this activity in the government-wide statements. Cost recovery efforts including the initiation of utility rate increases and a \$75,000 sewer connection agreement with the Township of Watervliet contributed to the combined \$31,016 increase in net assets reported in these major funds.

**Management's Discussion and Analysis**  
**June 30, 2004**

**General Fund Budgetary Highlights**

The General fund budget for revenue and expenditures for the fiscal year 2004 was \$908,498. The budgeted revenue for 2003 was \$882,959, an increase of \$25,539 and budgeted expenditures of \$1,007,586, a decrease of \$99,088.

An amendment to the General Fund budget to reduce police expenditures reflected the impact of changes of reduced personnel and overtime.

The General Fund budget complied with financial policies approved by the City Council and maintained core City services.

**Major Street Fund Budgetary Highlights**

The expenditures for street maintenance and construction exceeded budgeted expenditures. The City extended its planned maintenance to take advantage of price reductions for additional maintenance, not originally planned. The additional expenditures were paid for from prior cash reserves.

**Capital Asset and Debt Administration**

**Capital assets** - The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2004 was \$708,763 and \$1,227,535 respectively. The total decrease in this investment for business-type activities was \$62,566. Major capital asset additions during the current fiscal year included a backhoe and real property.

**Capital Assets**  
**Net of Accumulated Depreciation**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Non-depreciable assets:			
Land	\$ 221,341	\$ 13,500	\$ 234,841
Depreciable assets:			
Buildings	41,140	22,556	63,696
Improvements other than buildings	258,985	1,187,954	1,446,939
Furniture, machinery and equipment	<u>187,297</u>	<u>3,525</u>	<u>190,822</u>
Total	<u>\$ 708,763</u>	<u>\$ 1,227,535</u>	<u>\$ 1,936,298</u>

**Management's Discussion and Analysis**  
**June 30, 2004**

**Long-term debt** - At the end of the fiscal year, the City had total bonded debt outstanding of \$175,000. The debt is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by the Sewer Fund. During the year, the City issued a promissory note for \$50,000 for the purchase of equipment.

**Economic Environment and Next Year's Budgets** - Revenue shrinkage is expected resulting from the decline in the state economy and reduced state revenue sharing. However, the City has received notification of grant income for special projects, including:

- Great Lakes Basin grant of \$32,000 to create an urban sediment management demonstration center which will incorporate porous pavement and rain gardens to control sediment release into the river.
- Michigan Department of Natural Resources grant of \$42,300 for the second phase of improvements to Hays Park, to include a skate board park constructed near the Paw Paw River, a fishing pier and canoe launch. The City has also received a commitment from a donor to contribute \$20,000 towards the skate board park.
- State of Michigan Department of Environmental Quality grant of \$48,000 for the Clean Michigan Initiative, Abandoned Well Management program. This grant provides funding for the identification, location, and plugging of abandoned wells, and for the administration of abandoned well management project activities.

Governmental activities will realize benefits from City voter approvals of fire and library millages. These two activities had previously received financial support from the General Fund. During the next fiscal year, they will be supported by their own tax levy.

On July 15, 2004, the electors of the City of Watervliet, approved a 2 millage levy on the taxable property in the City for a period of two years to fund fire safety for the Watervliet Joint Fire Department, beginning for tax year 2004. The levy will raise \$51,972 during the first year. The levy expires in 2006.

On November 6, 2003, Watervliet citizens approved a .5 millage tax levy for the Watervliet Library, beginning the tax year of 2004. The levy will raise \$12,492 during the first tax year of 2004. The levy expires in 2007.

**Contacting the City's Financial Management** - This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Manager at the City Hall, Pleasant Street, Watervliet, MI 49098.

**City of Watervliet**  
**Statement of Net Assets**  
**June 30, 2004**

		Primary Government		
		Governmental	Business-type	
		Activities	Activities	Total
Assets				
Current assets:				
Cash		\$ 536,287	\$ 232,197	\$ 768,484
Investments, at cost		300,454	-	300,454
Internal balances		170,438	(170,438)	-
Receivables, net, where applicable of allowances for uncollectibles				
Accounts receivable		-	50,034	50,034
Unbilled accounts		-	123,077	123,077
Interest receivable		407	-	407
Prepaid supplies		-	4,463	4,463
Prepaid expenses		-	8,622	8,622
Total current assets		<u>1,007,586</u>	<u>247,955</u>	<u>1,255,541</u>
Non-current assets:				
Investment in redevelopment property		92,558		92,558
Land		221,341	13,500	234,841
Other capital assets, net of accumulated depreciation		<u>487,422</u>	<u>1,214,035</u>	<u>1,701,457</u>
Total non-current assets		<u>801,321</u>	<u>1,227,535</u>	<u>2,028,856</u>
Total assets		<u>1,808,907</u>	<u>1,475,490</u>	<u>3,284,397</u>
Liabilities				
Current liabilities:				
Accounts payable		72,424	57,265	129,689
Wages and benefits payable		43,669	10,631	54,300
Payable to other taxing entities		11,638		11,638
Compensated absences, current portion		11,921		11,921
Current maturities of note and bonds		<u>12,012</u>	<u>25,000</u>	<u>37,012</u>
Total current liabilities		<u>151,664</u>	<u>92,896</u>	<u>244,560</u>
Non-current liabilities:				
Obligation for redevelopment property		92,558		92,558
Note and bonds payable, net of current portion		<u>35,048</u>	<u>150,000</u>	<u>185,048</u>
Total non-current liabilities		<u>127,606</u>	<u>150,000</u>	<u>277,606</u>
Total liabilities		<u>279,270</u>	<u>242,896</u>	<u>522,166</u>
Net Assets				
Invested in capital assets, net of related debt		661,703	1,052,535	1,714,238
Restricted for:				
Community development projects		3,744		3,744
Unrestricted		<u>864,190</u>	<u>180,059</u>	<u>1,044,249</u>
Total net assets		<u>\$ 1,529,637</u>	<u>\$ 1,232,594</u>	<u>\$ 2,762,231</u>

See auditors' report and notes to financial statements.

**City of Watervliet**  
**Statement of Activities**  
**Year Ended June 30, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government	\$ 204,843	\$ 24,846	\$ 255,660	\$ -	\$ 75,663
Public safety	338,750	4,595	6,425	-	(327,730)
Public works	252,272	3,500	-	-	(248,772)
Health and welfare	16,339	-	-	-	(16,339)
Recreation and cultural	39,033	925	17,786	47,880	27,558
Streets	98,984	-	136,514	-	37,530
Downtown development	20,103	-	-	-	(20,103)
Housing improvement	<u>7,200</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>(2,200)</u>
Total governmental activities	977,524	38,866	416,385	47,880	(474,393)
Business-type activities:					
Sewer	312,405	348,934	-	-	36,529
Water	<u>192,306</u>	<u>185,442</u>	<u>-</u>	<u>-</u>	<u>(6,864)</u>
Total business-type activities	504,711	534,376	-	-	29,665
Total primary government	<u>\$ 1,482,235</u>	<u>\$ 573,242</u>	<u>\$ 416,385</u>	<u>\$ 47,880</u>	<u>\$ (444,728)</u>

**City of Watervliet**  
**Statement of Activities (continued)**  
**Year Ended June 30, 2004**

	Primary Government		
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Change in net assets:			
Net (expense) revenue - from pg 13	\$ (474,393)	\$ 29,665	\$ (444,728)
General revenues:			
Taxes:			
Property taxes	517,290	-	517,290
Other taxes	5,424	-	5,424
Unrestricted investment income	11,381	1,351	12,732
Miscellaneous	90,256	-	90,256
Total general revenues	<u>624,351</u>	<u>1,351</u>	<u>625,702</u>
Change in net assets	149,958	31,016	180,974
Net assets, beginning	<u>768,935</u>	<u>1,201,578</u>	<u>1,970,513</u>
Net assets, ending	<u>\$ 918,893</u>	<u>\$ 1,232,594</u>	<u>\$ 2,151,487</u>



**City of Watervliet**  
**Balance Sheet - Governmental Funds**  
**June 30, 2004**

	General Fund	Major Streets	Local Streets	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 97,763	\$ 147,620	\$ 9,830	\$ 208,114	\$ 72,960	\$ 536,287
Investments, at cost	218,278	82,176	-	-	-	300,454
Interest receivable	407	-	-	-	-	407
Due from other funds	381,461	54,934	27,240	-	14,644	478,279
<b>Total Assets</b>	<b>\$ 697,909</b>	<b>\$ 284,730</b>	<b>\$ 37,070</b>	<b>\$ 208,114</b>	<b>\$ 87,604</b>	<b>\$ 1,315,427</b>
<b>Liabilities</b>						
Accounts payable	\$ 32,650	\$ 6,184	\$ 2,404	\$ -	\$ 31,186	\$ 72,424
Wages and benefits payable	40,378	2,215	1,076	-	-	43,669
Due to other funds	91,134	69,902	14,286	132,519	-	307,841
Due to other taxing entities	11,638	-	-	-	-	11,638
<b>Total Liabilities</b>	<b>175,800</b>	<b>78,301</b>	<b>17,766</b>	<b>132,519</b>	<b>31,186</b>	<b>435,572</b>
<b>Fund balances</b>						
Fund balances:						
Designated						
Unreserved and undesignated	522,109	206,429	19,304	75,595	3,744	3,744
<b>Total Fund Balances</b>	<b>522,109</b>	<b>206,429</b>	<b>19,304</b>	<b>75,595</b>	<b>52,674</b>	<b>876,111</b>
<b>Total Liabilities</b>					<b>56,418</b>	<b>879,855</b>
<b>and Fund Balances</b>	<b>\$ 697,909</b>	<b>\$ 284,730</b>	<b>\$ 37,070</b>	<b>\$ 208,114</b>	<b>\$ 87,604</b>	<b>\$ 1,315,427</b>

See auditors' report and notes to financial statements.

**City of Watervliet**  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets**  
**June 30, 2004**

Total fund balance - total governmental funds	\$ 879,855
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$1,424,760 net of accumulated depreciation of \$715,997 are not financial resources and, therefore, are not reported in the funds.	708,763
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	<u>(58,981)</u>
Total differences	<u>649,782</u>
Net assets of governmental activities	<u>\$ 1,529,637</u>

**City of Watervliet**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Governmental Funds**  
**Year Ended June 30, 2004**

	General	Major Streets	Local Streets	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 491,098	\$ -	\$ -	\$ -	\$ 26,192	\$ 517,290
Payment in lieu of taxes	5,424	-	-	-	-	5,424
Intergovernmental revenue	256,222	101,058	35,456	-	-	392,736
Penalties and administration	11,566	-	-	-	-	11,566
Interest	7,479	2,524	46	872	460	11,381
Other revenue	180,585	-	-	-	5,000	185,585
<b>Total revenues</b>	<b>952,374</b>	<b>103,582</b>	<b>35,502</b>	<b>872</b>	<b>31,652</b>	<b>1,123,982</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Legislative	9,588	-	-	-	-	9,588
General government	188,535	-	-	-	-	188,535
Public safety	328,385	-	-	-	-	328,385
Public works	186,105	-	-	-	-	186,105
Health and welfare	16,339	-	-	-	-	16,339
Recreation and cultural	33,300	-	-	-	-	33,300
Streets	-	128,156	57,454	-	-	185,610
Downtown development	-	-	-	-	51,072	51,072
Housing improvement	-	-	-	-	7,200	7,200
<b>Debt service:</b>						
Principal	2,940	-	-	-	-	-
Interest	389	-	-	-	-	-
<b>Capital outlay</b>	<b>7,099</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,099</b>
<b>Total expenditures</b>	<b>772,680</b>	<b>128,156</b>	<b>57,454</b>	<b>-</b>	<b>58,272</b>	<b>1,016,562</b>
<b>Excess of revenues over expenditures</b>	<b>179,694</b>	<b>(24,574)</b>	<b>(21,952)</b>	<b>872</b>	<b>(26,620)</b>	<b>107,420</b>
<b>Other financing sources (uses):</b>						
Operating transfers from other funds	-	-	22,000	15,116	-	37,116
Operating transfers to other funds	(37,116)	-	-	-	-	(37,116)
Proceeds from sale of assets	3,500	-	-	-	-	3,500
<b>Total other financing sources (uses)</b>	<b>(33,616)</b>	<b>-</b>	<b>22,000</b>	<b>15,116</b>	<b>-</b>	<b>3,500</b>
<b>Net change in fund balances</b>	<b>146,078</b>	<b>(24,574)</b>	<b>48</b>	<b>15,988</b>	<b>(26,620)</b>	<b>110,920</b>
<b>Fund balances, beginning of the year</b>	<b>376,031</b>	<b>231,003</b>	<b>19,256</b>	<b>59,607</b>	<b>83,038</b>	<b>768,935</b>
<b>Fund balances, end of the year</b>	<b>\$ 522,109</b>	<b>\$ 206,429</b>	<b>\$ 19,304</b>	<b>\$ 75,595</b>	<b>\$ 56,418</b>	<b>\$ 879,855</b>

**City of Watervliet**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances**  
**of Governmental Funds**  
**to the Statement of Activities**  
**June 30, 2004**

Net change in fund balances - total governmental funds	\$ 110,920
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	84,605
Governmental funds report debt payments as expenditures. However, in the statement of net assets, the payment reduces the outstanding liability.	3,329
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net increase in compensated absences of \$2,225, and the installment purchase of equipment for \$50,000.	<u>(52,225)</u>
Total differences	<u>35,709</u>
Change in net assets of governmental activities	<u>\$ 146,629</u>

**City of Watervliet  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004**

	Assets	Business-type Activities		
		Sewer	Water	Total
Current assets:				
Cash		\$ 140,406	\$ 91,791	\$ 232,197
Investments, at cost				-
Due from other funds		3,703	17,868	21,571
Receivables, net, where applicable of allowances for uncollectibles				-
Accounts receivable billed		50,000	34	50,034
Unbilled accounts		82,745	40,332	123,077
Interest receivable			-	-
Prepaid supplies			4,463	4,463
Prepaid expenses		3,868	4,754	8,622
Total current assets		<u>280,722</u>	<u>159,242</u>	<u>439,964</u>
Non-current assets:				
Land		5,000	8,500	13,500
Other capital assets, net of accumulated depreciation		<u>723,885</u>	<u>490,150</u>	<u>1,214,035</u>
Total non-current assets		<u>728,885</u>	<u>498,650</u>	<u>1,227,535</u>
Total assets		<u>1,009,607</u>	<u>657,892</u>	<u>1,667,499</u>
	Liabilities			
Current liabilities:				
Accounts payable		47,781	9,484	57,265
Due to other funds		126,249	65,760	192,009
Wages and benefits payable		4,714	5,917	10,631
Current maturities of bonds		<u>25,000</u>	-	<u>25,000</u>
Total current liabilities		<u>203,744</u>	<u>81,161</u>	<u>284,905</u>
Non-current liabilities:				
Bonds payable, net of current portion		<u>150,000</u>	-	<u>150,000</u>
Total non-current liabilities		<u>150,000</u>	-	<u>150,000</u>
Total liabilities		<u>353,744</u>	<u>81,161</u>	<u>434,905</u>
	Net Assets			
Invested in capital assets, net of related debt		553,885	498,650	1,052,535
Unrestricted		<u>101,978</u>	<u>78,081</u>	<u>180,059</u>
Total net assets		<u>\$ 655,863</u>	<u>\$ 576,731</u>	<u>\$ 1,232,594</u>

See auditors' report and notes to financial statements.

**City of Watervliet**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business-type Activities		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Charges for service	\$ 265,815	\$ 177,494	\$ 443,309
Connection and other fees	77,150	4,080	81,230
Penalties on delinquent billings	5,924	3,828	9,752
Miscellaneous revenue	45	40	85
Total operating revenues	<u>348,934</u>	<u>185,442</u>	<u>534,376</u>
Operating expenses:			
Maintenance, operations and contractual services	178,388	51,280	229,668
Salaries, taxes, and pension	47,823	62,564	110,387
Equipment rental	15,729	22,694	38,423
Utilities	209	7,794	8,003
Insurance	15,320	23,314	38,634
Other operating services and charges	3,511	556	4,067
Depreciation	<u>38,462</u>	<u>24,104</u>	<u>62,566</u>
Total operating expenses	<u>299,442</u>	<u>192,306</u>	<u>491,748</u>
Operating income (loss)	<u>49,492</u>	<u>(6,864)</u>	<u>42,628</u>
Non-operating revenues (expenses)			
Interest revenue	681	670	1,351
Interest expense	<u>(12,963)</u>	<u>-</u>	<u>(12,963)</u>
Total non-operating revenues (expenses)	<u>(12,282)</u>	<u>670</u>	<u>(11,612)</u>
Change in net assets	37,210	(6,194)	31,016
Total net assets, beginning	<u>618,653</u>	<u>582,925</u>	<u>1,201,578</u>
Total net assets, ending	<u>\$ 655,863</u>	<u>\$ 576,731</u>	<u>\$ 1,232,594</u>

See auditors' report and notes to financial statements.

**City of Watervliet  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2004**

	Business-type Activities		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 413,149	\$ 192,174	\$ 605,323
Payments to suppliers	(178,388)	(51,280)	(229,668)
Payments to employees	(47,823)	(62,564)	(110,387)
Other payments	(34,769)	(54,358)	(89,127)
Net cash provided by operating activities	<u>152,169</u>	<u>23,972</u>	<u>176,141</u>
Cash flows from financing activities:			
Principal paid on long-term debt	(20,000)	-	(20,000)
Interest paid on long-term debt	(12,963)	-	(12,963)
Net cash used by financing activities	(32,963)	-	(32,963)
Cash flows from investing activities:			
Interest received on investments	681	670	1,351
Net cash provided by investing activities	<u>681</u>	<u>670</u>	<u>1,351</u>
Net increase in cash and cash equivalents	119,887	24,642	144,529
Balances, beginning of year	20,519	67,149	87,668
Balances, end of year	<u>\$ 140,406</u>	<u>\$ 91,791</u>	<u>\$ 232,197</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 49,492	\$ (6,864)	\$ 42,628
Adjustments to reconcile operating income to net cash provided by operating activities:			-
Depreciation expense	38,462	24,104	62,566
Change in assets and liabilities:	-	-	-
Receivables, net	(83,444)	(13,896)	(97,340)
Prepaid expenses	(2,276)	(1,312)	(3,588)
Prepaid supplies	-	6,039	6,039
Due from other funds	(3,703)	(10,932)	(14,635)
Accounts and other payables	42,755	(18,904)	23,851
Accrued expenses	(978)	4,200	3,222
Due to other funds	111,861	41,537	153,398
Net cash provided by operating activities	<u>\$ 152,169</u>	<u>\$ 23,972</u>	<u>\$ 176,141</u>

See auditors' report and notes to financial statements.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Summary of Significant Accounting Policies**

**Reporting Entity** - The City of Watervliet was incorporated in 1925 and operates under an elected Mayor/Council form of government. The city's major operations include public safety, public works, recreation and parks, community enrichment and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the city's operations include how the budget is adopted, whether debt is secured by general obligation of the city, the City's duty to cover any deficits that may occur, and supervision over the accounting functions.

The City does not have any component units.

**Government-Wide and Fund Financial Statements** - The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the activities of the primary government and its component units. Interfund activity, which duplicates revenues or expenses, has been eliminated from these statements, except for those transactions and balances between governmental and business-type activities. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund statements include separate statements for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Measurement Focus, Basis of Accounting, and Financial Statement**

**Presentation** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The General fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Street funds account for the operations of the street construction and maintenance. These activities are funded with intergovernmental revenue.

The City's proprietary funds are the Sewer and Water Funds. The City's utilities include water treatment and distribution.

Standards issued by the Financial Accounting Standards Board (FASB) applicable to the private sector business entities, issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent commercial accounting guidance for their business-type activities and enterprise funds, subject to this same limitation.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the transfers between the utility funds and the general fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utilities are charges to the customers for services. The City's utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities, and Net Assets or Equity**

*Deposits and Investments* – The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The investment policy adopted by the board is in accordance with Act 196, PA 1997.

*Receivables and payables* – Activity between funds that are representative of lending/borrowing transactions outstanding at the end of the fiscal year are designated as either "due to other funds" or "due from other funds".

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Assets, Liabilities, and Net Assets or Equity (continued)**

*Receivables and payables (continued)*

All trade and property tax receivables, including those for the utilities, are shown net of an allowance for uncollectibles.

Property taxes attach as an enforceable lien on property as of December 31st. City taxes are levied on the following July 1st and are payable without penalty through September 30th. The City bills and collects its own property taxes, taxes for the county, state education fund, and school districts within its jurisdiction. Collection and remittance of county and school tax is accounted for in the Tax Collection Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. An allowance is established for delinquent taxes to the extent that their collectibility is improbable.

*Inventories and Prepaid Items* – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

*Capital Assets* – Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. The City has elected the prospective method for recognizing infrastructure assets. Infrastructure assets are valued and inventoried from June 1, 2003 and forward.

The City has established a capitalization policy to recognize capital assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the city is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	10-15
Infrastructure	50
Vehicles	5
Equipment	10-15

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Assets, Liabilities, and Net Assets or Equity (continued)**

*Compensated Absences* – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated vacation benefits must be used during the current calendar year, so there is no long-term debt for these benefits. The liability for these compensated absences is recorded as short-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

*Long-term obligations* – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

*Fund Equity* – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Reconciliation of Government-Wide and Fund Financial Statements**

The governmental funds balance sheet includes the reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. The principal payments on long-term debt are eliminated from the operating costs.

**Stewardship, Compliance, and Accountability**

**Budgetary Information** – Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Stewardship, Compliance, and Accountability (continued)**

The City Manager submits the proposed budget to the Council. The council revises and adopts the budget no later than June 30<sup>th</sup>. The budgetary controls are exercised at the department level. The City Commission adopts amendments during the year as necessary.

**Excess of Expenditures over Budgeted Appropriations** – For the year ended June 30, 2004, expenditures exceeded appropriations in the following funds/departments. These overages were funded by excess revenues and available fund balances.

<u>Fund/Department</u>	<u>Amount</u>
Major Street Fund	\$33,641

**Deposits and Investments**

The City's investment policies direct the Senior Deputy Clerk, with Finance Committee approval, to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investment of public funds.

At year-end, the carrying amounts of the City's deposits were \$1,068,639 and the bank balances of the City's deposits were \$1,071,680. The bank balances were covered by \$383,354 of federal deposit insurance and the remainder was uninsured and uncollateralized. Michigan law does not require collateralization of government deposits. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The City evaluates each financial institution it deposits with and assesses the level of risk of each institution. The institutions with an estimated acceptable level of risk are used.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments consist of certificates of deposits that are insured and either held by the City or its agent in the City's name. All investments are listed as category #1 as defined by GASB Statement #3.

**Property Tax**

Property taxes include amounts levied against all real and public utility property, plus tangible personal property that is located within the city limits. All property taxes are levied January 1st based on the assessment values as of the previous December 31st. Winter property taxes are due by February 14<sup>th</sup>.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Property Tax (continued)**

Summer property taxes are due by September 14<sup>th</sup>. If summer property taxes are unpaid, the unpaid summer and a penalty is added to the winter property tax bill. The delinquent real property taxes on March 1<sup>st</sup> are turned over to the County of Berrien. The County advances the City the amount of the delinquent taxes. Delinquent accounts bear interest at 12% minimum per annum until paid to the County.

**Capital Assets and Depreciation**

Capital asset activity for the year ended June 30, 2004 was as follows:

	-----	Primary Government	-----	
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 186,481	\$ 34,860	\$ --	\$ 221,341
Buildings and improvements	163,828	--	--	163,828
Improvements other than bldgs.	209,642	--	--	209,642
Vehicles	266,795	--	--	266,795
Equipment	423,170	60,205	9,941	473,434
Infrastructure	<u>--</u>	<u>89,720</u>	<u>--</u>	<u>89,720</u>
Total cost	1,249,916	184,785	9,941	1,424,760
Less accumulated depreciation				
Buildings and improvements	(120,942)	(1,746)	--	(122,688)
Improvements other than bldgs.	(29,040)	(8,243)	--	(37,283)
Vehicles	(218,368)	(19,770)	-	(238,138)
Equipment	(307,408)	(17,327)	(9,941)	(314,794)
Infrastructure	<u>--</u>	<u>(3,094)</u>	<u>--</u>	<u>(3,094)</u>
Total accumulated depreciation	<u>(675,758)</u>	<u>(50,180)</u>	<u>(9,941)</u>	<u>(715,997)</u>
Net capital assets	<u>\$ 574,158</u>	<u>\$134,605</u>	<u>\$ --</u>	<u>\$ 708,763</u>

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 4,495
Public safety	10,365
Public works	26,493
Recreation and parks	5,733
Streets	<u>3,094</u>
Total governmental depreciation expense	<u>\$ 50,180</u>

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Capital Assets and Depreciation (continued)**

Capital asset activity for the year ended June 30, 2004 was as follows:

	----- Beginning Balance	Primary Government Additions	Deletions	----- Ending Balance
Business-type activities:				
Land	\$ 13,500	\$ --	\$ --	\$ 13,500
Transmission & distribution system	2,348,011	--	--	2,348,011
Buildings and improvements	75,599	--	--	75,599
Machinery & equipment	<u>54,182</u>	<u>--</u>	<u>--</u>	<u>54,182</u>
Total cost	2,491,292	--	--	2,491,292
Less accumulated depreciation				
Transmission & distribution system	(1,099,923)	(60,134)	--	(1,160,057)
Buildings and improvements	(51,752)	(1,291)	--	(53,043)
Machinery & equipment	<u>(49,516)</u>	<u>(1,141)</u>	<u>--</u>	<u>(50,657)</u>
Total accumulated depreciation	<u>(1,201,191)</u>	<u>(62,566)</u>	<u>--</u>	<u>(1,263,757)</u>
Net capital assets	<u>\$1,290,101</u>	<u>\$(62,566)</u>	<u>\$ --</u>	<u>\$1,227,535</u>

Depreciation expense was charged to functions as follows:

Sewer	\$ 38,462
Water	<u>24,104</u>
Total business-type activities depreciation expense	<u>\$ 62,566</u>

**Inter-fund Assets/Liabilities**

Due from/to other fund balances at June 30, 2004 were as follows:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund	\$ 381,461	\$ 91,134
Major Street	54,934	69,902
Local Street	27,240	14,286
Capital Projects	--	132,519
DDA	14,644	--
Water	17,869	65,761
Sewer	<u>3,703</u>	<u>126,249</u>
Total	<u>\$ 499,851</u>	<u>\$ 499,851</u>

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Long-Term Liabilities**

Changes during the fiscal year and balances as of June 30, 2004, including the current portions, of the City were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Other liabilities:					
Accrued vacation	\$ 14,146	\$ 11,921	\$ 14,146	\$ 11,921	\$ 11,921
Installment purchase note	--	50,000	2,940	47,060	12,012
Brownfield redevelopment	<u>50,000</u>	<u>50,000</u>	<u>7,442</u>	<u>92,558</u>	<u>--</u>
Total other liabilities	<u>\$ 64,146</u>	<u>\$111,921</u>	<u>\$ 24,528</u>	<u>\$151,539</u>	<u>\$ 23,933</u>
Business-type Activities:					
Bonds payable:					
Sewage Disposal Bonds	<u>\$195,000</u>	<u>\$ --</u>	<u>\$ 20,000</u>	<u>\$175,000</u>	<u>\$ 25,000</u>

Principal and interest requirements to retire the City's long-term obligations are:

	<u>Brownfield</u>	<u>Note</u>	<u>Sewage Bonds</u>	<u>Total</u>
Governmental Activities:				
2005		\$ 12,012		\$ 12,012
2006		12,394		12,394
2007		12,789		12,789
2008		9,865		9,865
2009		--		--
2010-2014	<u>\$ 92,558</u>	<u>--</u>		<u>92,558</u>
Total Governmental	<u>\$ 92,558</u>	<u>\$ 47,060</u>		<u>\$139,618</u>
Business-type Activities:				
2005			\$ 25,000	\$ 25,000
2006			25,000	25,000
2007			30,000	30,000
2008			30,000	30,000
2009			30,000	30,000
2010-2014			<u>35,000</u>	<u>35,000</u>
Total Business-type			<u>\$175,000</u>	<u>\$175,000</u>



**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Employee Retirement Plan**

The City of Watervliet contributes to a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual accounts are to be determined instead of specifying the amount of benefits that the individual is to receive. Under the City's defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on the investment of those contributions. The plan requires that all full time employees participate in the plan from the date that they are hired. Both voluntary contributions made by the employee and contributions made by the City vest immediately. The terms of the plan require that the City contribute 4% of the employees' gross earnings. No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

**Other Employee Benefits**

Vacation leave is credited on each employee's anniversary date and must be taken within one year. Remainder of eligible weeks, if not taken, shall be paid after anniversary date. In case of death or disability, earned vacations will be paid to the employee or his/her beneficiary.

Sick leave is granted to employees based upon their years of service, to a maximum of 160 hours. Unused sick leave shall accumulate for use in extended illness up to a total of 480 hours. All unused sick time will not be paid.

Dental/optical/medical cost reimbursement is available for each full-time employee to a maximum of \$400 per year. The City will reimburse employees for costs incurred on their behalf or their family that is not covered by any insurance provided by the City. The City administers the plan. The reimbursement is made upon presentation of a receipt from the provider.

**Joint Ventures**

The City is a member of the following non-profit organizations. Each municipality appoints an equal number of representatives to the joint venture boards, which then approve their annual budgets. The City shares an ongoing financial responsibility for these units in the form of yearly monetary contributions. The joint ventures issue separate financial statements, which are available from the respective board.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Joint Ventures (continued)**

<u>Organization</u>	<u>Contribution</u>
Watervliet Joint Fire Board	\$ 32,561
Community Emergency Service (Medic 1)	13,510
Watervliet Joint Library Board	12,000
Watervliet Joint Cemetery Board	5,000
Watervliet Joint Airport Board	2,000

**Paw Paw Lake Regional Joint Sewage Disposal Board** - In January of 1971, the cities and townships of Coloma and Watervliet agreed to jointly acquire, own and operate a sewage treatment and disposal facility. As part of the agreement, the Board was established to control, manage and operate the joint sewage facility. The Board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired.

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. The City is a member of the Municipal Liability and Property Pool sponsored by the Michigan Municipal League (MMLLP). The "Pool" functions as an unincorporated non-profit association and provides broad coverage, legal defense, and consultation to its members. Reinsurance companies protect pool loss funds. The City's annual contribution to the pool is recorded as an expenditure of the period in governmental funds and as a prepaid asset with allocated expense to the proper period in the proprietary funds.

Coverage by the MMLLP consists of \$5,000,000 in general liability insurance with no deductible. Property coverage is \$1,455,064 with \$4,000 in deductibles. The combined liability policy limit is \$5,000,000. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

**Contingencies**

**Embezzlement** - The former City Treasurer pleaded guilty to embezzling funds during her tenure as City Treasurer. The funds included property tax payments collected, but reported as unpaid, and billings and payments in excess of the property tax. The City Treasurer held the position since 1988. The State of Michigan Department of Treasury fraud examiners and auditing specialists conducted an extensive examination of the 1999, 2000, and 2001 summer and winter tax levies.

**City of Watervliet**  
**Notes to Financial Statements**  
**June 30, 2004**

**Contingencies (continued)**

The State of Michigan reported that \$24,215 was misappropriated during those periods. The former Treasurer was ordered to pay restitution to the City for \$15,393, which includes professional fees. During the year ended June 30, 2003, the City received the restitution payment. On September 6, 2002, the City received full settlement from its liability insurance of \$15,613. Because of the length of tenure of the Treasurer, all claims may not yet be identified.

**Advanced Taxes** - The City has received advances from the Berrien County Tax Revolving Fund for delinquent taxes assessed on real property. If those taxes prove to be uncollectible, the City will be responsible for repayment. A summary of taxes advanced and the uncollected balances outstanding at June 30, 2004 are:

<u>Tax Year</u>	<u>Advance</u>	<u>Balance June 30, 2004</u>
2003	\$ 43,635	\$ 21,416
2002	\$ 44,572	\$ 7,565
2001	\$ 40,602	\$ 981

**Grant Programs** - The City has participated in federal and state assisted grant programs. Those programs are subject to audit by the appropriate grantor agency. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**Brownfield Redevelopment Project** – The City, Watervliet Township, and Berrien County, entered into an agreement to help demolish and redevelop the Mill site property, (which includes both City and Township properties). The agreement allows the County to work towards redevelopment, incurring up to \$100,000 on behalf of the City, which is due to the County upon completion of the project and/or expiration of the Renaissance Zone designation in 2012. The City's obligation is reduced by the proceeds of the property sales. If the County does not recover its costs by the sale of the property before 2012, the City will be responsible for the balance. The City recorded an investment and obligation in the brownfield of \$92,558 on June 30, 2004.

**Litigation** – Certain claims, suits and complaints arising in the ordinary course of business may be filed or be pending against the City at various times during the year. In the opinion of management and legal counsel, all such matters are covered by insurance or, if not so covered, are without merit, and, their ultimate resolution will not have a material effect on the City's financial position or operations.

**City of Watervliet**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Final Budget  Positive (Negative)
Tax Revenue:				
Property taxes	\$ 510,887	\$ 510,887	\$ 491,098	\$ (19,789)
Payments in lieu of taxes	5,400	5,400	5,424	24
Total tax revenue	<u>516,287</u>	<u>516,287</u>	<u>496,522</u>	<u>(19,765)</u>
Revenues other than taxes:				
Intergovernmental revenue	270,798	270,798	256,222	(14,576)
Grant income	2,000	2,000	47,880	45,880
Royalties	7,000	7,000	16,920	9,920
Licences, permits and fees	11,825	11,825	12,655	830
Interest income	10,000	10,000	7,479	(2,521)
Fines and forfeits	4,500	4,500	5,404	904
Penalties and administrative fees	10,700	10,700	11,566	866
Equipment charges billed to other funds	49,500	49,500	49,504	4
Other revenues	<u>25,888</u>	<u>25,888</u>	<u>48,222</u>	<u>22,334</u>
Total other revenues	<u>392,211</u>	<u>392,211</u>	<u>455,852</u>	<u>63,641</u>
Total revenues	<u>\$ 908,498</u>	<u>\$ 908,498</u>	<u>\$ 952,374</u>	<u>\$ 43,876</u>

**City of Watervliet  
Budgetary Comparison Schedule  
General Fund (Continued)  
Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures				
Legislative	\$10,000	\$ 10,000	\$ 9,588	\$ 412
General government:				
Executive	3,200	3,200	2,370	830
Manager	36,651	41,058	35,687	5,371
Elections	1,570	2,537	1,726	811
Auditor and consulting	10,500	15,743	15,541	202
Assessor	7,300	8,162	9,034	(872)
Legal and related	9,000	25,544	26,977	(1,433)
Clerk, staff, general office	54,473	61,214	59,296	1,918
Board of review	510	25	427	(402)
Treasurer	11,597	12,980	16,611	(3,631)
City hall and grounds	13,613	16,874	15,866	1,008
Cemetery	5,000	5,000	5,000	-
Public safety:				
Police	315,131	284,189	273,725	10,464
Fire	35,000	38,889	32,561	6,328
Protective inspection	17,474	19,657	14,196	5,461
Crossing guard	12,857	13,163	7,903	5,260
Public works	249,475	240,674	186,105	54,569
Health and welfare:				
Ambulance service	12,475	12,636	12,686	(50)
Community development	9,845	10,096	1,653	8,443
Airport	2,000	2,000	2,000	-
Recreation and cultural:				
Recreation and parks	23,602	33,520	20,808	12,712
Library	12,492	12,492	12,492	-
Other functions:				
Debt service	3,329	3,329	3,329	-
Capital outlay	400	400	7,099	(6,699)
Total expenditures	<u>857,494</u>	<u>873,382</u>	<u>772,680</u>	<u>100,702</u>
Other financing sources (uses):				
Operating transfer from other funds				-
Operating transfer to other funds	(53,004)	(37,116)	(37,116)	-
Proceeds from sale of assets	2,000	2,000	3,500	1,500
Total other financing sources	<u>(51,004)</u>	<u>(35,116)</u>	<u>(33,616)</u>	<u>1,500</u>
Total expenditures and other financing	<u>\$ 908,498</u>	<u>\$ 908,498</u>	<u>\$ 806,296</u>	<u>\$ 102,202</u>

**City of Watervliet**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended June 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental revenue	\$ 96,022	\$ 96,022	\$ 101,058	\$ 5,036
Interest income	3,500	3,500	2,524	(976)
Total revenues	<u>99,522</u>	<u>99,522</u>	<u>103,582</u>	<u>4,060</u>
Expenditures:				
Streets:				
Maintenance	44,270	30,610	54,104	(23,494)
Construction	47,500	61,160	65,327	(4,167)
Administration	2,745	2,745	8,725	(5,980)
Total expenditures	<u>94,515</u>	<u>94,515</u>	<u>128,156</u>	<u>(33,641)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ 5,007</u>	<u>\$ 5,007</u>	(24,574)	<u>\$ (29,581)</u>
Fund balance, beginning of year			<u>231,003</u>	
Fund balance, end of year			<u>\$ 206,429</u>	

**City of Watervliet  
Budgetary Comparison Schedule  
Local Street Fund  
Year Ended June 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental revenue	\$ 32,508	\$ 32,508	\$ 35,456	\$ 2,948
Interest income	35	35	46	11
Total revenues	<u>32,543</u>	<u>32,543</u>	<u>35,502</u>	<u>2,959</u>
Expenditures:				
Streets:				
Maintenance	27,750	27,650	30,344	(2,694)
Construction	32,753	28,753	19,738	9,015
Administration	2,040	6,140	7,372	(1,232)
Total Expenditures	<u>62,543</u>	<u>62,543</u>	<u>57,454</u>	<u>5,089</u>
Excess of revenues over (under) expenditures	<u>(30,000)</u>	<u>(30,000)</u>	<u>(21,952)</u>	<u>8,048</u>
Other financing sources (uses)				
Operating transfers from other funds	30,000	30,000	22,000	(8,000)
Operating transfers to other funds	-	-	-	-
	<u>30,000</u>	<u>30,000</u>	<u>22,000</u>	<u>(8,000)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	48	<u>\$ 48</u>
Fund balance, beginning of year			<u>19,256</u>	
Fund balance, end of year			<u>\$ 19,304</u>	

**City of Watervliet  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

		Special Revenue Funds			
		Downtown Development Authority	DDA Revolving Loan Fund	Housing Improvement Fund	Total
Assets					
Cash		\$ 62,467	\$ 6,749	\$ 3,744	\$ 72,960
Due from other funds		14,644	-	-	14,644
Total Assets		<u>\$ 77,111</u>	<u>\$ 6,749</u>	<u>\$ 3,744</u>	<u>\$ 87,604</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable		\$ 31,186	\$ -	\$ -	\$ 31,186
Fund Balance:					
Unreserved:					
Designated		-	-	3,744	3,744
Undesignated		45,925	6,749	-	52,674
Total Fund Balance		<u>45,925</u>	<u>6,749</u>	<u>3,744</u>	<u>56,418</u>
Total Liabilities and Fund Balance		<u>\$ 77,111</u>	<u>\$ 6,749</u>	<u>\$ 3,744</u>	<u>\$ 87,604</u>



**City of Watervliet**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

	Special Revenue Funds			
	Downtown Development Authority	DDA Revolving Loan Fund	Housing Improvement Fund	Total
Revenues:				
DDA portion of property taxes	\$ 26,192	\$ -	\$ -	\$ 26,192
Interest income	423	18	19	460
Other revenues	-	-	5,000	5,000
Total revenues	<u>26,615</u>	<u>18</u>	<u>5,019</u>	<u>31,652</u>
Expenditures:				
Downtown Development:				
Capital outlay	30,969	-	-	30,969
Improvements	6,491	-	-	6,491
Community promotion	11,777	-	-	11,777
Administration	1,835	-	-	1,835
Housing Improvement:				
Rehabilitation	-	-	7,200	7,200
Total expenditures	<u>51,072</u>	<u>-</u>	<u>7,200</u>	<u>58,272</u>
Excess of revenues over (under) expenditures	<u>(24,457)</u>	<u>18</u>	<u>(2,181)</u>	<u>(26,620)</u>
Fund balance, beginning of year	<u>70,382</u>	<u>6,731</u>	<u>5,925</u>	<u>83,038</u>
Fund balance, end of year	<u>\$ 45,925</u>	<u>\$ 6,749</u>	<u>\$ 3,744</u>	<u>\$ 56,418</u>

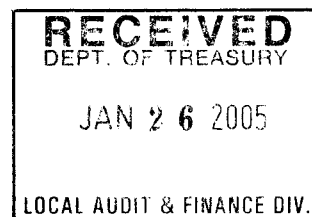
**City of Watervliet**  
**Statement of Changes in Assets and Liabilities**  
**Agency Fund - Tax Collection Fund**  
**Year ended June 30, 2004**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash on hand and in bank	<u>\$ 15,063</u>	<u>\$ 1,024,723</u>	<u>\$ (1,039,786)</u>	<u>\$ -</u>
<b>Liabilities</b>				
Due to other funds	15,063	528,924	(543,987)	-
Due to other governmental units	<u>-</u>	<u>495,799</u>	<u>(495,799)</u>	<u>-</u>
<b>Total Liabilities</b>	<u>\$ 15,063</u>	<u>\$ 1,024,723</u>	<u>\$ (1,039,786)</u>	<u>\$ -</u>

RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

December 11, 2004

City of Watervliet  
Watervliet, Michigan



Report of Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Watervliet, Michigan, for the year ended June 30, 2004, we considered its internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City of Watervliet's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in any control structure, errors or irregularities may occur and not be detected by such control structure.

This report contains items considered to be reportable conditions, as defined above, as well as other items.

Internal Control: Management is responsible for establishing and maintaining a system of internal controls over the accounting procedures as well as over all assets belonging to the City. Internal controls are policies and procedures designed to provide reasonable assurance that assets are safeguarded against unauthorized use and disposition.

A fundamental concept of internal control is that no one person should handle all aspects of a financial transaction from beginning to end. To strengthen those controls, you may want to continue to review existing procedures and the segregation of duties among the staff. During the year, the finance committee reduced its oversight for approval of invoices prior to payment. The City staff may want to increase its review in this area.

Financial Reports - The City's legislative body receives monthly financial reports from the treasurer and deputy clerk, but the Balance Sheet report has not been included in the past. We suggest the City officials regularly review this report and provide it to the legislative body. The report will assist the board in determining the sufficiency of the cash balances to meet the needs of the current and future periods, and unforeseen expenditures, etc.

Management Responsibility on Fraud - We suggest the City develop and implement a Code of Ethics to communicate the principles it expects to guide the work of the City. With the public exposure of accounting fraud, a new sense of awareness of the responsibilities for fraud prevention and detection has arisen. Presently, the City has no formal Code of Ethics.

Without a well written, communicated and enforced Code of Ethics and a specific internal focus on controls designed to prevent and detect fraud, the risk is heightened that misappropriation of City assets or fraudulent reporting will occur and not be detected in a timely manner. As you know, there are both financial and political consequences associated with the loss of assets and loss of public trust resulting from the disclosure of material fraud.

Funds due taxpayers - There are funds to be disbursed to taxpayers as a result of the restitution paid by the former Treasurer.

Investment policy - The City's investment policy was adopted in 1998 authorizing the Deputy City Clerk to make investment transactions. At that time, the City did not have a City Manager to manage the investments. The City may want to review this policy for updating.

Fund accounting - The City may want to review the necessity of maintaining separate accounting funds for the DDA Revolving Loan Fund, Housing Improvement Fund, and PPLRS Fund. These accounting entities may be able to be combined with existing funds and eliminated.

Disaster planning - The City may want to consider adding an offsite computer backup to its disaster plan and procedures.

Affiliated organizations - The City may want to consider a written understanding for services to be provided for organizations that receive the City's financial support, such as the airport and the cemetery.

We would like to thank the staff and officials of the City of Watervliet for the cooperation we received in conducting this year's audit.

Sincerely,

*Rendel Elie & Associates*

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